



AMERICANS *for* TAX REFORM

June 28, 2011

The Honorable John Boehner
U.S. House of Representatives
Washington, DC 20515

The Honorable Mitch McConnell
United States Senate
Washington, DC 20510

Dear Speaker Boehner and Leader McConnell:

Thanks to your efforts, debt limit negotiations are focused where they need to be—spending. The conversation in Washington, D.C. is no longer about what taxes will be raised, but rather how much and where to cut spending and reform entitlements. No entitlement is in need of greater reform than Medicare.

According to the Medicare actuaries, this program has an unfunded liability of perhaps \$90 trillion, after correcting for the double-counted “savings” in Obamacare. That’s a nightmare scenario for taxpayers, so attention has rightly been focused on modernizing this program for the 21st century, ensuring that tomorrow’s seniors will even have a Medicare program at all.

One option which has been discussed is to require prescription drug manufacturers to charge below-market prices for medicines sold to some Medicare beneficiaries. According to the Congressional Budget Office (CBO), this measure would cut spending in the Medicare program by \$112 billion over this decade.

While limited government advocates would be expected to cheer this change, it would in fact have far greater negative impacts on the size of government. Medicare’s prescription drug benefit (“Part D”) is notable in that it has come in over 40 percent under budget. By making drug companies compete for seniors, market forces have delivered a far more efficient prescription drug benefit compared to Medicare’s hospital insurance and doctor visit components.

Focusing spending cuts on this private sector oasis within Medicare will chase out drug companies, leaving the federal government as the insurer of only resort (and in turn limiting choices for seniors). **Over time, a government-only Medicare program will result in far higher cost than one in which competing private-sector providers serve a greater and greater share of Medicare’s population.** The only way to make Medicare solvent is to have it work like any other marketplace, with competition benefitting seniors. This particular spending cut is akin to a wolf in sheep’s clothing, as it will do far more damage to long-run fiscal prospects than it will save in the short term.

Sincerely,

Grover Norquist

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